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COUNCIL OF CHIEF STATE SCHOOL OFFICERS

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ORIGINAL

March 28, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 12th Street, SW, Room TW-A325
Washington, DC 20554

RE: **FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE: CC DKT NO. 96-45**

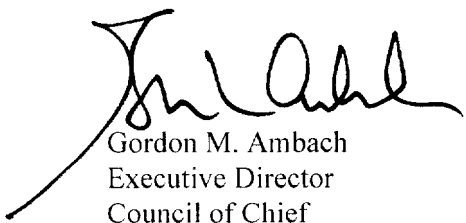
Dear Ms. Salas,

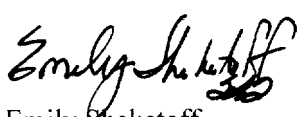
On March 28, 2000, a coalition of e-rate stakeholders met with Irene Flannery, Sharon Webber, and John Bernstein of the Common Carrier Bureau. Attending from the coalition were: Art Sheekey, for the Council of Chief State School Officers; Sandra Shirley, for the American Library Association; and, on behalf of the Bell companies, Sprint and GTE, Mary Henze and Mike Stauffer (BellSouth), Jim Lambertson and Erika Hush (Bell Atlantic), Peter Carlson (SBC), and, Ken Cartmell (US West).

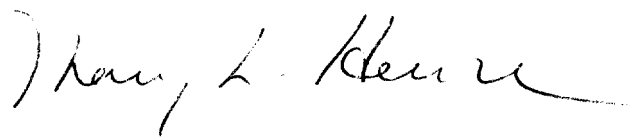
The purpose of the meeting was to discuss the need for two options for delivering/receiving e-rate benefits in Year 3 and beyond: cash reimbursement (BEAR) and discounts on bills. Based on their experience with Year 2, the coalition indicated that allowing the option of either the BEAR or discounts on bills on a permanent basis will benefit both applicants and service providers and help achieve the goals of the e-rate program. The coalition presented a proposal that balances the needs of applicants and service providers and strongly urged the FCC to adopt the plan in time to be implemented for Year 3 and beyond. All materials used during the meeting are attached.

This notice is being filed pursuant to Sec. 1.1206(b)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact a coalition member.

Sincerely,


Gordon M. Ambach
Executive Director
Council of Chief
State School Officers


Emily Sheketoff
Executive Director
American Library Assoc.
Washington Office


Mary L. Henze
Executive Director
BellSouth

cc: I. Flannery
S. Webber
J. Bernstein

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Providing Options for Delivery of E-Rate Benefits

Cash Reimbursement (BEAR) and Discounts on Bills

1. SUMMARY

- Two options are necessary for delivering/receiving e-rate benefits in Year 3 and beyond: cash reimbursement (BEAR) and discounts on bills.
- Applicants and service providers will benefit from having both options available.

2. BACKGROUND

- BEAR developed in Year 1 and extended to Year 2 to handle retroactive reimbursement.
- BEAR is a proven process; allowed applicants to receive e-rate benefits despite extensive delays and mixed service provider readiness for discounting.
- Many LECs completed systems to provide discounting and have done so for customers requesting them.

3. EXPERIENCE WITH CHOICE IN PROGRAM YEAR 2

From Applicant Perspective:

- For recurring services, BEAR reimbursement process has allowed schools to keep operations budgets at levels that reflects actual need. Protects against budget reductions that could be catastrophic if e-rate funding were not approved.
- Payments received via BEAR have been directed to other technology projects while savings from discounted bills are reflected in general funds and spent in other areas.
- Final quarter retroactive payments can be timed to transcend fiscal years.
- Discounting option has been important for making large, one-time capital expenditures more affordable.
- Using BEAR allows applicant to assume responsibility for paying service provider in full, and thus gain leverage over the quality and timeliness of work performed. Discounting means service provider looks to USAC for payment, thus reducing applicant's leverage over service provider.

From Service Provider Perspective:

- 50% to 80% of LEC customers who have filed 486 have selected the BEAR option.
- If pattern of Year 1 is repeated, those who have not yet filed 486 will wait and do so with BEAR form, thus final percent will be higher.
- For Priority One services, applicants of all percent discount levels show preference for BEAR.

- For example, 59% of BellSouth e-rate customers in 90% discount level have chosen BEAR; 85% of BellSouth e-rate customers in 20% to 70% discount range have selected BEAR.
- For Priority Two services, applicants of all percent discount levels show preference for discounting
 - For example, almost 90% of Sprint internal connections customers have chosen to have discounts on bills.

4. PROPOSAL FOR CONTINUING BEAR OPTION (YEAR 3 AND BEYOND)

- All Service Providers would be required to certify/demonstrate the ability to provide both discounts on bills and timely cash reimbursement (BEAR)
- Cash reimbursement/BEAR process would operate as today: full payment with retroactive reimbursement.
- Selection of benefit delivery option should be discussed and agreed upon between applicant and service provider, with following limitations (assumes early filing of 486 allowed).
 - For Priority One Services:
 - For Applicants with 486s received by SLD **before** July 31 of each program year or 30 days after start of new service, whichever is later, the applicant's preference for benefit delivery method will take priority.
 - For Applicants with 486s received **after** July 31 of each program year, the service provider's preference for benefit delivery method will take priority.
 - For Priority Two Services:
 - At all times, the applicant's preference for benefit delivery method will take priority.
- Service providers should be strongly encouraged to accommodate applicant needs in cases where funding decisions are not issued in a timely manner.
- In states with rules or requirements precluding service providers from offering one or the other form of e-rate benefit delivery (i.e., rules governing application of both state and Federal discounts), the state rules would determine the benefit delivery method used.

5. KEY BENEFITS OF CONTINUING BEAR OPTION

For Applicants:

- Allows applicants flexibility to manage e-rate benefits in manner that maximizes impact of funding on technology goals.

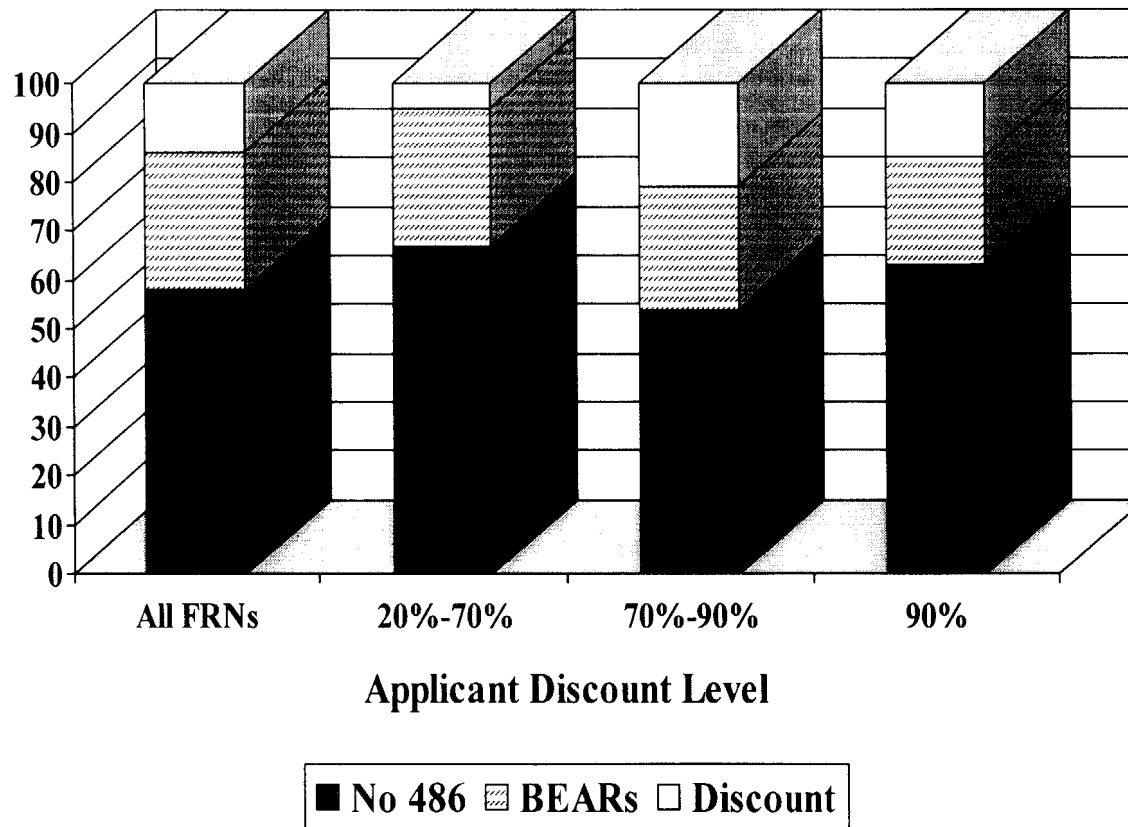
For Service Providers:

- Allows service providers to meet customer needs and provides opportunity to control costs.

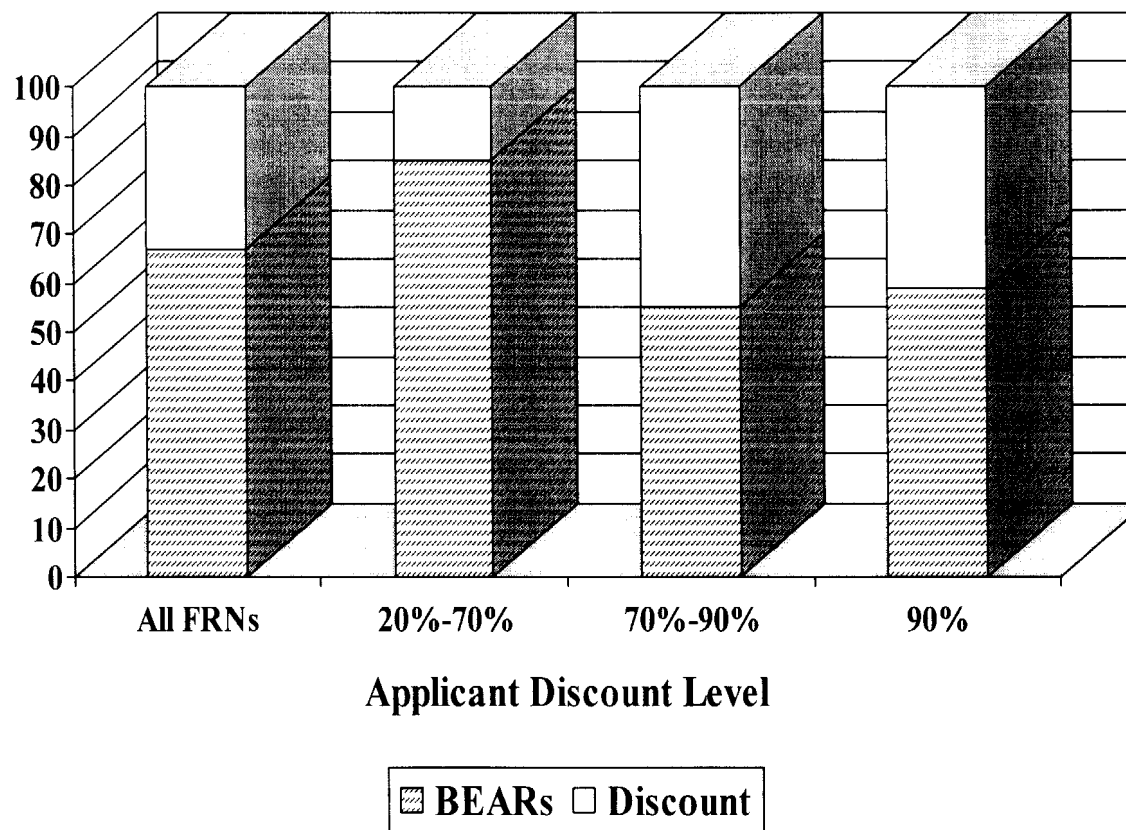
For SLD:

- Provides proven method to deliver benefits retroactively due to resolution of appeals or other late delivered FCDLs

**BellSouth E-Rate Customers
Year 2 Benefit Delivery Selection
All FRNs-Status as of 3/15/00**



**BellSouth E-Rate Customers
Year 2 Benefit Delivery Selection
Filed 486s-Option Selected**



**BellSouth E-Rate Customers
Year 2 Benefit Delivery Selection**

All FRNs - Status as of 3/15/00

	All FRNs		20%-70% Discount		70%-90% Discount		90% Discount	
No 486	2,288	58%	1,084	67%	1,204	54%	288	63%
BEARs	1,104	28%	446	28%	562	25%	100	22%
Discount	542	14%	76	5%	466	21%	69	15%
Total	3,934	100%	1,606	100%	2,232	100%	457	100%

Filed 486s - Option Selected as of 3/15/00

	All FRNs		20%-70% Discount		70%-90% Discount		90% Discount	
BEARs	1,104	67%	446	85%	562	55%	100	59%
Discount	542	14%	76	15%	466	45%	69	41%
Total	1,646	100%	522	100%	1,028	100%	169	100%